

MINUTES
CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE: Tuesday, January 08, 2019
TIME: 2:30 P.M.
PLACE: WW 17
MEMBERS PRESENT: Senators Co-Chairman Patrick, Agenbroad, Lakey, Guthrie, and Burgoyne
Representatives Co-Chairman Anderson, Holtzclaw, Syme, Kingsley, and Gannon
ABSENT/ EXCUSED: None

CONVENED: **Co-Chairman Anderson** called the meeting of the Change in Employee Compensation Committee (CECC) to order at 2:31 p.m. (Note: Attachments can be found at [https://legislature.idaho.gov/sessioninfor/2019/joint/cec-materials/.](https://legislature.idaho.gov/sessioninfor/2019/joint/cec-materials/))
Co-Chairman Anderson welcomed all and thanked the CECC Members for their time and continued service. He asked the members to introduce themselves. **Co-Chairman Patrick** introduced himself and provided a summary of the mission of the CECC. He stated the CECC's purpose is to improve employee retention. Introductions were given by: Linda Kambeitz, Committee Secretary; Sebastian Griffin, Senate Page; and Robin Lockett, Principal Budget and Policy Analyst, Legislative Services Office (LSO).

Co-Chairman Anderson expressed gratitude for the presenters' valuable perspectives. He provided a synopsis of the presenters and order of the next few meetings. **Co-Chairman Anderson** explained it would not be until at least the third meeting that a recommendation would be made for a presentation to the Joint-Finance and Appropriations Committee (JFAC).

MINUTES APPROVAL: **Co-Chairman Patrick** moved to approve the Minutes of December 6, 2018. **Representative Holtzclaw** seconded the motion. The motion carried by **voice vote**.

MINUTES APPROVAL: **Co-Chairman Patrick** remarked no quorum was present for the CECC meeting on December 18, 2018; however, the Minutes included notes of the discussed items. He moved to approve the Minutes of December 18, 2018. **Representative Holtzclaw** seconded the motion. The motion carried by **voice vote**.

PRESENTATION: **Susan Buxton**, Director, Idaho Division of Human Resources (IDHR), thanked the Committee and relayed an expression of gratitude on behalf of the State employees for its continued review and support of employee compensation. She acknowledged the presence of Sharon Duncan, Bureau Chief, IDHR; Sheena Buffi, Compensation Manager, IDHR; and Lisa Hughes, Senior Strategic Rewards Analyst, Milliman Incorporated (Milliman). **Ms. Buxton** stated all three were integral in the creation of the Report to the Governor, Fiscal Year (FY) 2020 Change in Employee Compensation & Benefits Report (IDHR Report). A copy of the report can be found at the IDHR website.

Ms. Buxton began the presentation with reference to the FY 2020 Change in Employee Compensation and Benefits PowerPoint (Attachment 1), the IDHR Report, and Idaho Code § 67-5309A (IDHR, Appendix G, Page 151). **Ms. Buxton** outlined the components of the IDHR's Fiscal Year 2020 recommendation. The report addresses four areas: 1) relevant labor market competitiveness; 2) specific occupational inequities; 3) merit based compensation; and 4) any other changes related to the employee benefit package.

Ms. Buxton explained that the 3 percent salary structure increases over the last 3 years aligned with the objective of achieving policy on wages. Policy is the market midpoint for employee compensation and therefore, the goal. Surveys of Idaho employers showed the State was not near the midpoint. This indicated a continued need to increase the salary structure. **Ms. Buxton** described occupational inequities to be payline exceptions made for employees in specific job classifications where the market value is higher than the established pay range. As the salary structure increases, the inequities decrease.

Ms. Buxton directed CECC members to pages 26 and 27 of the IDHR Report. These pages contained the recommendations included as part of the Governor's recommendation presented earlier in the day to JFAC. These recommendations included: a minimum 2 percent salary structure increase; continuance of payline exceptions; a minimum 3 percent merit increase to stay aligned with the job market; and maintenance of the current employee benefit structure, specifically, the proportionality of employee and employer contribution amounts. She provided further details on pay grade, classifications, and structure within the IDHR guidelines.

Ms. Buxton relayed the results of the 2017 and 2018 salary surveys commissioned at the request of the CECC and both Senate and House Commerce and Resources Committees. Milliman was contracted by IDHR to complete a study of Idaho employer salaries. The results showed the State was behind 9 percent in 2017 and 8 percent in 2018 in the public and private wage base. She noted the full 2018 survey could be reviewed under Appendix E of the IDHR Report.

Ms. Buxton spoke on the findings of the Korn Ferry 2018 Total Compensation Report (IDHR Report, Appendix F). The results showed that within the comparative market segment, Idaho was 10.7 percent behind the public sector and 12.7 percent behind the private sector (Attachment 1, Slide 5). The study revealed the biggest contributing factor to the gap in overall total compensation is with respect to the salary base. Total compensation includes the salary base plus all employee benefits.

Ms. Buxton explained how the 2 percent salary increases allow the State to maintain but not gain ground in the attempt to achieve policy. While benefits continue to be above the average, private and public sector employers are adding to their benefits. The result is a diluted effect on increases to the State's salary structure. After some details on turnover rates, **Ms. Buxton** provided a detailed illustration of the retention issues experienced statewide. Southeastern Idaho Public Health had 11 employees leave in 2018; 7 for new employment with 5 of the 7 a result of compensation. This example illustrated the importance of maintaining a competitive compensation package.

Ms. Buxton provided findings from a second study, Korn Ferry Employee Rewards Survey Results (IDHR Report, Appendix C; Attachment 1, Slides 11-17). The survey indicated, overall, employees do not want a change in the compensation package relative to an increased base salary and a reduction in benefits. Among State employees and across all segments of employees, health care was the highest priority benefit, followed by paid time off (PTO). **Ms. Buxton** completed her presentation with a summary of the feedback received from employees in regards to their health care benefits. A noticeable trend of fear and worry over the costs associated with health care benefits reiterated the acknowledgement that total compensation was related to employee retention.

Co-Chairman Anderson thanked Ms. Buxton for her presentation and informed the audience of an agenda change. He informed the CECC that Senator Lakey and Representative Wood, Members of the State Employee Group Insurance and Benefits Legislative Interim Committee (Interim Committee) would follow Ms. Buxton, with Mr. Adams moved to third on the agenda.

PRESENTATION: **Senator Lakey** provided a recap of the Interim Committee's goals for the CECC. The Interim Committee had been meeting for three years. The second year, it commissioned Mercer, an outside consulting and advisory firm, to assist with uncovering opportunities to improve employee compensation as well as develop a Request for Proposal (RFP) regarding employee benefits. The previous Administration asked to have a Request for Information (RFI) done prior to an RFP. Mercer was able to complete their assessment and recommendations. However, at this time those findings are confidential as they will be part of the upcoming RFP.

Senator Lakey referenced the Final Report of the State Employee Group Insurance and Benefits Legislative Interim Committee (Final Report, Attachment 2). He noted one of the areas the report incorporated into the RFP was the evaluation done as to whether the State should move from the existing hybrid funding model to a self-funded or self-insured model. Also within its scope would be opportunities for value-based care, statewide or regionally. **Senator Lakey** acknowledged the minority report provided by Representative Gannon. The request from the minority report was for the RFP to require no bottom line increases to the employee cost of health care and not result in a loss of quality or integrity of the overall compensation package. **Senator Lakey** affirmed this was the objective of the Interim Committee; that the RFP with its numerous components would not include such a stringent requirement. However, this did not include a requirement that there would be an increase in cost nor be an erosion of benefits.

Representative Wood expounded upon the origination of the Interim Committee. At the time, health care benefit costs had been regularly increasing at an annual rate of 10 percent. The Interim Committee was formed to address the issue of cost containment while preserving benefits. He expressed his belief that if larger corporations who were not State-regulated were able to manage rising costs, then the State should be able to come up with a solution. A component of that solution, based on Mercer's recommendation, could be that the State self-insure and exempt itself from Idaho Code § 41-401. Currently, the State's health care benefit is self-funded; these are two different things.

Representative Wood brought up a concern over the Governor's budget in regards to spending down some of the health care reserves (reserves) and its effect on a self-insuring option. He informed the CECC he was awaiting further information from the IDHR Policy Bureau Chief and the Governor's Director of Intergovernmental Affairs about the administration's intention. Even without the information, he was hopeful progress would be made on the Interim Committee's objectives for cost control and benefit preservation.

DISCUSSION:

Co-Chairman Anderson thanked Senator Lakey and Representative Wood for the update and work done on the Interim Committee. **Representative Syme** wanted clarification on the recommendations of the Interim Committee. **Representative Wood** replied Mercer set forth three recommendations: 1) self-insure; 2) exempt the State from Idaho Code § 41-401; and 3) put out an RFP with latitude allowing for traditional and non-traditional health care plan design. Traditional health care, in this instance, referred to the State's current options of a Preferred Provider Option (PPO) and a non-Health Care Savings Account (HSA) qualified, high deductible plan. The non-traditional plan propositions were a value-based system based on an Accountable Care Organization model, a more restrictive PPO, and an HSA qualified high deductible health plan option.

Senator Lakey added the RFP was not strictly for any one model of health care nor funding method. This allowed for the best solutions to be presented and decided upon by the Idaho Division of Administration (IDOA).

Senator Burgoyne asked if the proposal intentionally left out the term "self-insured" or if self-funded had been used incorrectly. **Representative Wood** replied "self-funded" should read "self-insured." **Senator Burgoyne** continued with an inquiry into whether or not the Interim Committee was making a recommendation or if there would be further evaluations based on the RFP. **Representative Wood** reiterated that the recommendations set forth were from Mercer and the Interim Committee's recommendation was to authorize an RFP with the results, in turn, to be presented to the IDOA.

Senator Guthrie expressed his frustration with the apparent stalemate between recognition and progress with respect to State health care benefits.

Representative Gannon suggested the use of incentives rather than cost increases and benefit reductions when and if there are changes to the plan.

Co-Chairman Anderson asked Senator Lakey and Representative Wood if the Interim Committee would be requesting an extension. **Senator Lakey** replied there was no request to continue the Interim Committee. His expectation was that he and Representative Wood, along with the CECC and the rest of the legislators, would continue to follow the RFP as interested parties.

Co-Chairman Anderson inquired as to whether or not a policy position was necessary regarding the percentage of employee-to-employer contributions. **Representative Wood** stated he believed a policy position was needed along with stringent adherence to the policy. He stressed the State's position as a large employer should be used to benefit the public with its influence over change to employer-based health care benefits.

PRESENTATION: **Co-Chairman Anderson** welcomed Alex Adams, Administrator, Idaho Division of Financial Management (IDFM). **Mr. Adams** presented the Governor Brad Little FY 2020 CEC Recommendation (Attachment 3). He reaffirmed Ms. Buxton's position that the recommendations were in line with the IDHR. Governor Little's recommendation included a 2 percent increase in pay structure, continuance of the payline exceptions, a 3 percent merit increase for permanent, full-time positions, and maintenance of the current benefit structure.

Mr. Adams returned to Representative Wood's comment on the use of the reserves. The amount held in reserves was a function of federal guidelines and employee costs. In order to avoid federal penalties, last year, the IDFM presented a plan to JFAC to utilize the excess reserves and slow appropriations accordingly. It was stressed this was not a savings in health plan costs but a shifting of funds to avoid federal penalties. Moreover, it was a one-time occurrence. The FY 2021 budget would not reflect the same draw down.

DISCUSSION: **Senator Lakey** inquired as to how the use of the reserves reflected the Governor's position on self-insuring in regards to a health care plan. **Mr. Adams** replied the Governor's position was not to exclude the possibility of self-insuring. Additionally, the decisions made for the current budget year reflected a desire to be prudent in regards to appropriations and flexible towards future options. Ms. Buxton and Ms. Pike joined Mr. Adams in answering several follow-up questions.

Co-Chairman Anderson asked Ms. Pike to explain the current reserve level, Milliman's recommended reserve level, and how it related to the 10 percent minimum. **Ms. Pike** explained the current confidence level is 85 percent, and Milliman's report included 90 percent and 95 percent levels. The higher the confidence level, the more years the reserve levels could withstand a complete draw down within a ten year window. An 85 percent level equated to 3 draw downs in a 10-year period. **Ms. Pike** expressed her belief that, based on the State's prior performance, the current level is sufficient.

Senator Burgoyne asked if the composition of the reserve contributions included employee contributions or were they solely State (employer) contributions. **Ms. Pike** replied she did not have a definitive answer at this time as the funds come from the entire amount sent to the insurance carrier and are returned undesignated.

Representative Gannon asked how the 3 percent recommendation related to the potential PERSI increase and inflation rate. **Mr. Adams** deferred to Ms. Buxton. **Ms. Buxton** replied consideration was given to all relative items impacting compensation, including inflation and a PERSI increase. **Ms. Buxton** added that a 3 percent increase seemed to be a reasonable recommendation.

PRESENTATION: **Co-Chairman Anderson** thanked the speakers and formally welcomed Jennifer Pike, Idaho Office of Group Insurance (IOGI) Program Administrator, Idaho Department of Administration (IDOA), as a presenter. **Ms. Pike** provided a background and scope of duties for the IOGI. She updated the CECC on changes to the group benefits package, as well as the impact of the Affordable Care Act. Biannual, professional actuarial reports have been part of the continual monitoring and future planning completed by the IOGI. **Ms. Pike** commented the more frequent reporting allowed trends and unexpected circumstances to be addressed as quickly as possible.

Ms. Pike expanded upon the IOGI's portion of the Governor's recommendation. The recommendation included utilization of the reserves in excess of 10 percent to mitigate benefit reductions and cost increases to the current health care plan for FY 2019, FY 2020, and in future years. The FY 2019 expected increase to plan participants is between \$5 and \$25 per month. She updated the CECC on the completed status of the RFI regarding employee feedback on the State's available benefit services and programs. The RFI findings directed the creation of an RFP through the Idaho Division of Purchasing. The RFP would include provisions for elements of value-based care, different plan design, and an opportunity to include alternative funding models should there be a policy decision change. The expected project completion date is June 30, 2019.

DISCUSSION:

Co-Chairman Anderson thanked Ms. Pike. **Senator Burgoyne** asked if the increase to the reserves account occurred on a predictable basis. **Ms. Pike** replied the carrier refunds, which comprise the reserves, are a function of better than expected plan performance and lower than expected aggregate claim amount. The predictability of either is not tenable on a long-term basis. **Senator Burgoyne** followed up with a request for Ms. Pike's opinion on the historical repetition of draw downs on the reserves as it relates to stabilizing the minimum reserve level. **Ms. Pike** indicated the justification for the current budgeting method is due to the varied costs of health care, including market changes and claims.

Representative Gannon asked whether the reserves would be used against the entire employer and employee premium amount or strictly towards the employer premium payments. **Ms. Pike** replied the reserves would be used to offset the employer cost on a one-time basis.

Co-Chairman Anderson instructed the CECC to review their questions and concerns ahead of the next meeting.

ADJOURNED:

There being no further business at this time, **Co-Chairman Anderson** adjourned the meeting at 4:34 p.m.

Representative, Neil Anderson, Co-Chairman

Linda Kambeitz
Secretary

Senator Jim Patrick, Co-Chairman

Jenny Smith
Assistant Secretary